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ABSTRACT

A study assessed whether the Department of Labor's (DOL's) information on states' Workforce Investment Act of 1998 (WIA) spending was a true reflection of states' available funds. The most recent available spending data from DOL and the 50 states were analyzed. Interviews were conducted with state workforce officials in nine states, local officials in at least one area in seven states, and officials at DOL headquarters, five regions, and four national associations. Findings indicated that DOL lacked accurate information on states' WIA spending and obligations, due to reporting inconsistencies. Lacking such comprehensive information, DOL overestimated amounts states had available to spend. WIA funds were spent within the authorized three-year timeframe. Labor established its own spending benchmarks to determine how states managed their spending, to formulate budget requests, and to target assistance efforts, but had not universally shared those targets with states. States wanted more guidance and technical assistance. Factors that affected when expenditures occurred or were reported included lengthy contract procurement, delayed provider billing, and slower spending at the state level. Fluctuating funding levels affected states' and local areas' willingness to make long-term commitments and inhibited their ability to do long-range planning. The three-page report is followed by "Spending Under the WIA," an overview of the congressional briefing. (YLB)

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United States General Accounting Office

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Report to Congressional Requesters

September 2002

WORKFORCE INVESTMENT ACT

Interim Report on Status of Spending and States' Available Funds

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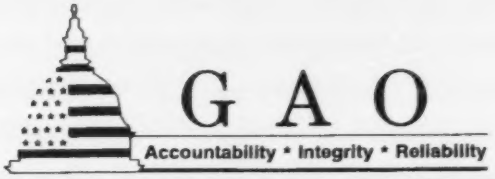

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Contents

Letter		1
Appendix I	**Overview of Congressional Briefing**	4
Appendix II	**Nine Selected States**	23
Appendix III	**List of States that Received Letters from Labor**	24
Related GAO Products		25

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United States General Accounting Office
Washington, DC 20548

September 5, 2002

The Honorable Edward M. Kennedy
Chairman, Committee on Health, Education
Labor and Pensions
United States Senate

The Honorable Howard P. "Buck" McKeon
Chairman, Subcommittee on 21st Century Competitiveness
Committee on Education and the Workforce
House of Representatives

With the enactment of the Workforce Investment Act of 1998 (WIA), the Congress made sweeping changes to federal employment and training programs. WIA sought to unify previously fragmented programs and create a more comprehensive workforce investment system by bringing together most federally funded employment and training services into a single service delivery system known as the one-stop center system. In July 2002, most states had just completed their second full year of implementation. With a program year 2002[1] authorization of about $3.6 billion, WIA serves the nation's adults, dislocated workers, and youth. Twice the administration has proposed reducing the program's budget—proposing a $359 million reduction for fiscal year 2002 and $343 million in 2003. In both cases, the administration has cited states' large amounts of unexpended funds carried over from the prior year. However, state and local workforce officials have expressed a need for more funding in light of current economic conditions.

To more fully assess whether the Department of Labor's spending information is a true reflection of states' available funds, you asked us to determine (1) whether Labor has accurate information on states' WIA spending, (2) what Labor does to determine how states are managing their WIA spending, and (3) what affects states' WIA expenditure rates.

To respond to these questions, we analyzed the most recent available spending data from Labor and the 50 states. We also interviewed state workforce officials in nine states and local officials in at least one area in

[1]A program year begins July 1 and ends June 30.

seven of the states, along with officials at Labor headquarters, five regions, and four national associations. In selecting the states, we focused primarily on those with the larger WIA allocations. These states were geographically dispersed, included states with single and multiple workforce areas, and represented a range of expenditure rates and experience levels in implementing WIA. In selecting local areas, we chose from among the largest local areas in the state. We conducted our work from April to August 2002 in accordance with generally accepted government auditing standards.

On August 15 and 22, 2002, we briefed your staffs on the results of our analysis. This report formally conveys the information provided during those briefings.

In summary, we found that Labor does not have accurate information on states' WIA spending due to reporting inconsistencies—all states do not report expenditures or commitments in the same way. Lacking accurate information on funds that have been committed by the states and local areas, Labor overestimates the funds that states have available to spend. Even if expenditures are understated, however, Labor's data show that WIA funds are being spent within the authorized 3-year timeframe. In fact, as of March 31, 2002, states had spent essentially all of their program year 1999 funds within the 3 years allowed, and 83 percent of their program year 2000 funds in under 2 years.

To determine how states manage their spending, Labor has established its own spending benchmarks, using them to assess whether states are on track with their spending, to target technical assistance, and to formulate budget requests. However, some state officials told us they did not understand why Labor assessed spending based on these annual benchmarks when states had three years in which to spend their funds. Moreover, the benchmarks were often not communicated to the states. In addition, some state officials remained confused by some of the financial reporting requirements because Labor's guidance and assistance has not been clear and definitive.

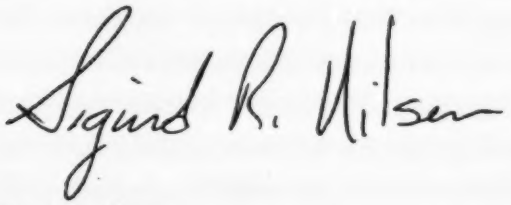
Several factors affect when expenditures occur or are reported. State officials told us that cumbersome processes to get approval to spend funds, lengthy contract procurement procedures, and untimely billing by key services providers, especially community colleges, all delayed the timing of expenditures, sometimes by as much as 3 to 8 months. Fluctuations in funding levels also affected many states' and local areas' willingness to commit funds for the long term and inhibited their ability to

plan comprehensive workforce investment systems. Finally, funds held by the state for statewide activities and for responding to mass layoffs and plant closings are often spent at a slower rate, causing overall expenditures to appear lower. To overcome some of these factors, some states and local areas are implementing such strategies as frequent monitoring and recapturing of unspent funds from one local area to another, requiring expedited billing as part of contract specifications, and initiating the procurement process before the receipt of funds so that contracts are in place by the time funds become available.

In conclusion, it appears that states are spending their funds within the timeframe allowed under WIA – in fact, nationwide, many states are spending far faster than the 3 years the law allows. Because Labor lacks reliable data on obligations, it uses expenditure data to gauge budgetary need. In doing so, Labor fails to take into account longer term commitments made to customers and service providers, and underestimates budgetary need. In addition, states we visited told us that they want to spend their funds wisely and manage spending judiciously, and they are seeking help and guidance from Labor.

We provided a draft of this briefing to officials at Labor for their technical review and incorporated their comments where appropriate.

We are sending copies of this report to relevant congressional committees and other interested parties and will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov. If you or your staff have any questions about this report, please contact me or Dianne Blank at (202) 512-7215. Meeta Sharma, Kim Reniero, Rebecca Woiwode, Bill Keller, and Patrick DiBattista also made key contributions to this report.



Sigurd R. Nilsen
Director, Education, Workforce,
and Income Security Issues

Appendix I: Overview of Congressional Briefing

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Spending under the Workforce Investment Act

Briefing for Staff of
Senator Kennedy, Chairman
Senate Committee on Health, Education, Labor, and Pensions
and
Representative McKeon, Chairman
Subcommittee on 21st Century Competitiveness
House Committee on Education and the Workforce

August 15 and 22, 2002

1

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Key Questions

- Does the Department of Labor have accurate information on states' Workforce Investment Act (WIA) spending?
- What does Labor do to determine how states are managing their WIA spending?
- What affects states' WIA expenditure rates?

2

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Scope and Methodology

- We analyzed the most recent available spending data from Labor and the states, as well as other relevant financial documents and reports.
- We interviewed state workforce officials in nine states and local officials in at least one area in seven of these states. We also interviewed officials at Labor headquarters, five of its regional offices, and four national associations.
- In selecting states, we focused primarily on those with larger WIA allocations, collectively representing 51 percent of the nationwide allocation for program year 2000 (see app. I). These states were geographically dispersed, included states with single and multiple workforce areas, and represented a range of expenditure rates and experience levels in implementing WIA. In selecting local areas, we chose from among the largest local areas in the state.
- This review was conducted in accordance with generally accepted government auditing standards.

3

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Summary of Results

- Labor lacks accurate information on states' WIA spending and obligations due to reporting inconsistencies. Lacking such comprehensive information, Labor overestimates the amount states have available to spend. Yet, Labor's expenditure data shows that WIA funds are being spent within authorized timeframes—96 percent spent in under 3 years and 83 percent spent in less than 2 years.
- Labor has established its own benchmarks to determine whether states are managing their spending, to formulate budget requests, and to target assistance efforts, but has not universally shared those targets with states. States want more guidance and technical assistance.
- States and localities reported similar factors that affect when expenditures occur and are reported, including lengthy contract procurement and delayed provider billing, and slower spending at the state level. In addition, fluctuating funding levels affect their willingness to make long-term commitments and inhibit their ability to do long-range planning.

4

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Background -- Key Provisions of WIA

- Enacted in 1998, states were required to implement major provisions of WIA by July 1, 2000. Six states began implementation in July 1999.
- Mandated that most federally funded employment and training services be delivered through a one-stop system overseen by new state and local workforce investment boards having broad flexibility.
- Authorized three funding streams: adults, dislocated workers, and youth, most of which are allocated to local areas. States reserve up to15 percent from each funding stream for statewide activities and up to 25 percent from dislocated worker funds for rapid response activities—funds to address plant closures and mass layoffs.
- Overall, WIA funds are allocated from Labor to states and from states to local areas that then use the funds for goods and services.
- Limits local funds for administration to no more than 10 percent of the allocation.
- Localities have 2 years and states have 3 years to spend their funds.

5

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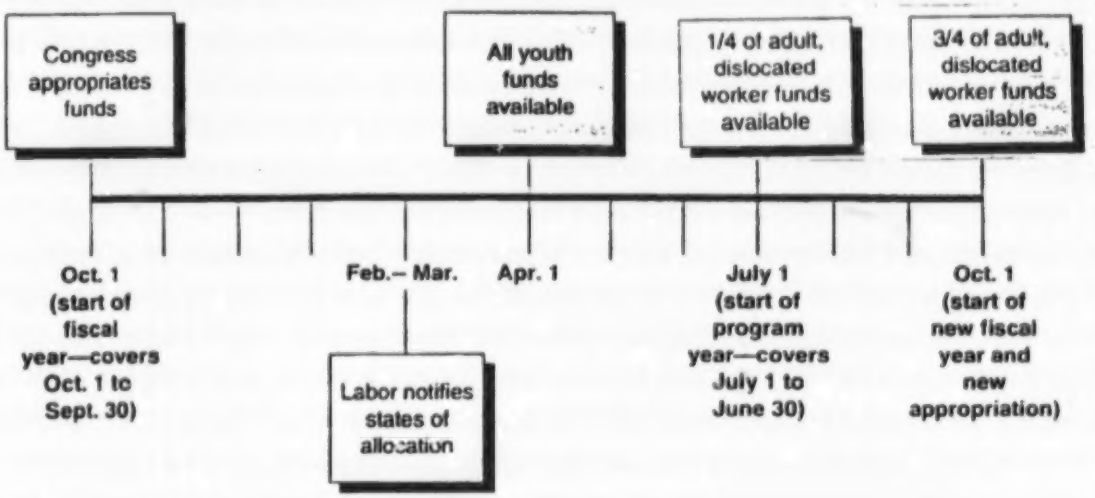
Background -- Annual Funding Cycle

Funds are made available to states at 3 separate times during the year


Congress appropriates funds
All youth funds available
1/4 of adult, dislocated worker funds available
3/4 of adult, dislocated worker funds available
Oct. 1 (start of fiscal year—covers Oct. 1 to Sept. 30)
Feb.– Mar.
Apr. 1
July 1 (start of program year—covers July 1 to June 30)
Oct. 1 (start of new fiscal year and new appropriation)
Labor notifies states of allocation

6

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Background -- Reporting Requirements

- Because both adult and dislocated worker funds are provided from two separate appropriations, for each program year, Labor requires states to report financial information by funding category and by the year in which funds are appropriated, totaling 11 reports each quarter:
  - Statewide Activities for the 15 percent reserve (two reports)
  - Statewide Rapid Response (two reports)
  - Local Adult Programs (two reports)
  - Local Dislocated Worker Programs (two reports)
  - Local Administration (10 percent cap) (two reports)
  - Local Youth Programs (one report)(all funds allocated in a single year)

7

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Background -- Labor's Definitions of Financial Terms

In its guidance to states. Labor has defined certain financial terms:

- **Expenditures**: actual cash disbursements or outlays.
- **Accruals**: amounts owed for goods and services that have been received but for which cash has not yet been disbursed. For example, an accrual would occur if a job seeker completed a training class but the training provider had not yet been paid.

  WIA requires expenditures to be reported on an accrual basis.
- **Unliquidated Obligations**:[1] obligations incurred, but for which an outlay has not yet been recorded: should include unliquidated obligations to subgrantees and contractors. For example, an unliquidated obligation would be incurred when the state or local area enters into a contract with a service provider for training but training has not yet been completed or the service provider paid.

[1]Note that throughout the briefing, we refer to unliquidated obligations as obligations.

8

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Labor's Financial Data Are Inaccurate Due to Reporting Inconsistencies

- WIA requires that states include accruals as expenditures, but a few states report only cash outlays.
- Excluding accruals may affect expenditures only in the short term. Eventually accruals result in cash outlays for goods and services. However, if it takes a long time for this to occur, expenditures for a given year will be understated.
- WIA requires that states report obligations without specifying whether this includes local commitments. As a result, states report obligations inconsistently.
- All nine states we contacted collect local obligations information:
  - four report local obligations to Labor.
  - five do not report local obligations to Labor.
- Because Labor's data on obligations do not consistently reflect local commitments, Labor relies on expenditure data to estimate states' available funds.

9

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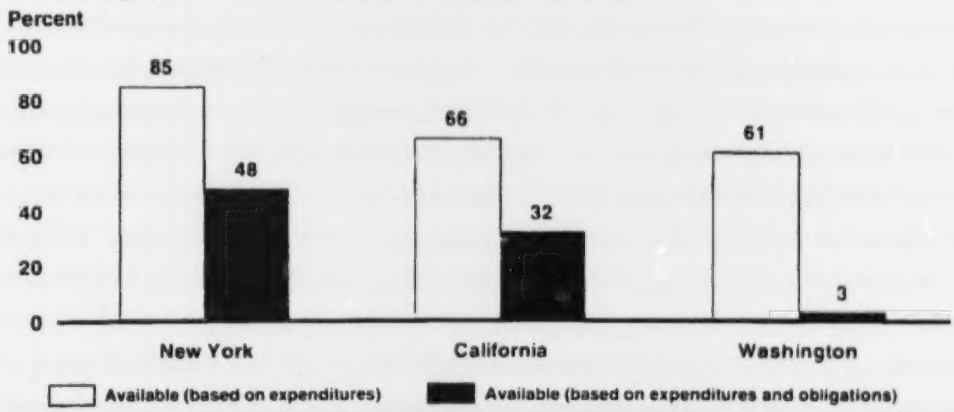
Labor Overstates Available Funds by Considering Only Expenditures and Not Obligations

For three of the four states that reported local obligations, the amount of available funds is much less when local obligations are considered along with expenditures. For the fourth state, Vermont, obligations and expenditures were very similar, with about 26 percent of program year 2001 funds available.

Percentage of PY2001 Allocation Available, as of 3/31/02



10

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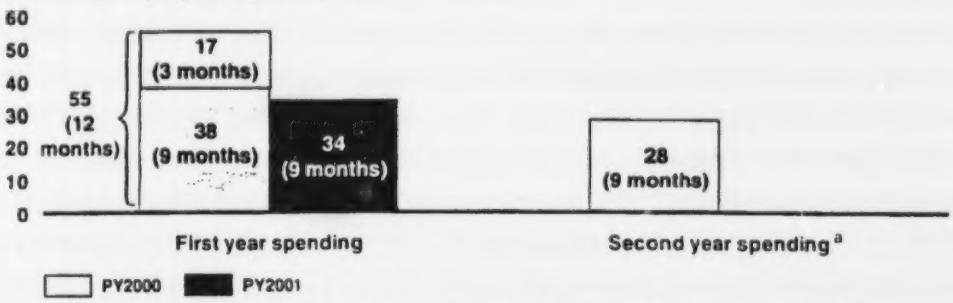
Even if Understated, Labor's Data Show Spending Is on Track Given 3-Year Window

Labor's data show most states likely to spend funds within the allowed three years:

- Program year 1999 funds are 96 percent expended over 2 years, 9 months (not shown).
- Program year 2000 funds are 83 percent expended over 1 year, 9 months (55% in 1st year, 28% in 2nd).

Expenditure Rates by Year Spent, as of 3/31/02



Note: PY2000 first year spending covers the 12-month period July 1, 2000 to June 30, 2001, and second year spending covers 9-month period July 1, 2001 to March 31, 2002 (latest available data from Labor). PY2001 first year spending covers 9-month period July 1, 2001 to March 31, 2002 (latest available data from Labor).

[a]Second year spending for PY2001 has just begun.

11

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Labor Uses Benchmarks to Determine How States Are Managing WIA Spending

- Labor establishes an annual national expenditure rate benchmark for states—in program year 2001, the benchmark was set at 69 percent of all available funds.
- The purposes of Labor's benchmarks are to
  - formulate next year's budget request.
  - identify states needing monitoring and additional guidance
- The benchmarks are rarely communicated to states causing frustration when Labor identifies them as underspending without specifying what goal is to be achieved.

12

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Labor Has Established Monitoring Protocols for WIA Spending

- Labor began monitoring states' spending in April 2001.
- Regional offices were required to contact states that fell below the benchmarks, review their expenditures, identify causes of underspending, help develop a corrective action plan, and submit monthly progress reports to Labor's headquarters.
  - Four regional offices that we contacted have conducted monitoring site visits to states with low expenditure rates.
  - Twenty-six states have received monitoring letters (see app.II):
    - Three of these states received letters because they were below benchmarks.
    - The remaining 23 states received letters as part of ongoing regional communications on spending, no matter what their spending levels were.

13

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Labor Provides Additional Guidance to States, but States Remain Concerned about Reporting

- Financial reporting guidance and technical assistance efforts vary by regional office--one office issued a guidance memo, another conducted training workshops.
- Some state and local area officials remain concerned about reporting requirements.
  - State officials find it burdensome to submit 11 quarterly reports and say it strains their administrative cost caps.
  - Labor's definition of obligations is unclear—it does not specify whether states should collect and report local-level obligations.
  - State and local officials told us they would like a better definition of obligations, better guidance and technical assistance, and systematic sharing of promising practices on how to effectively manage WIA spending.

14

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Expenditure Processes May Delay Reporting of Spending

- Internal processes for obtaining approval to spend funds can be lengthy--ranging from 2 weeks to 8 months.
- Contracting for services causes delays in expenditures.
  - Procurement process is complex, often involves many layers of review.
  - States and localities may rely on performance-based contracts where some portion of expenditures are incurred when performance goals are met.
- Some key service providers, particularly public institutions like community colleges, bill late—sometimes 3-8 months after providing services.

15

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Availability of Funds and Implementation Issues Affect Overall WIA Spending

- Funding levels often fluctuate due to budget decisions and funding formulas.
  - States and localities are less willing to commit funds for long-term training and education.
  - Funding fluctuations hinder the ability to plan comprehensive workforce investment systems.
- WIA's emphasis on referrals to other one-stop partners' programs may result in non-WIA funds being spent first.
- In the early stages of implementation, expenditures may have been lower because many one-stop centers were not fully up and running.

16

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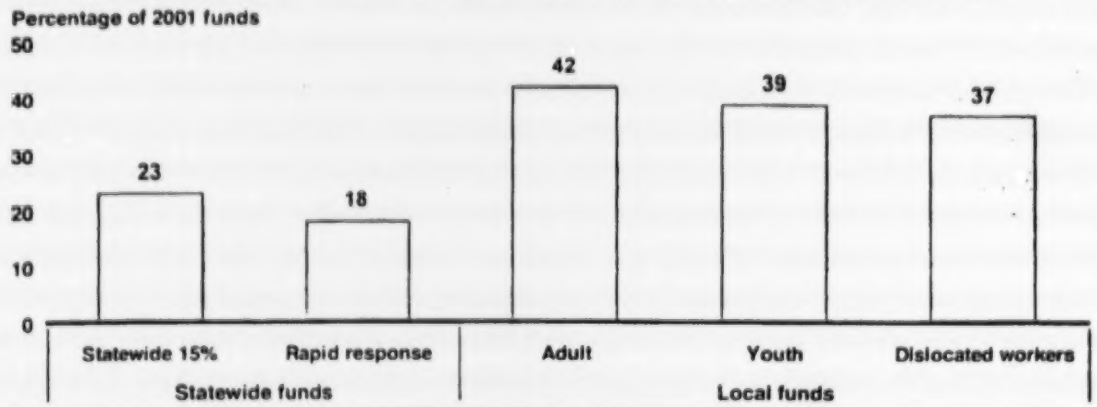
Slower Spending of Statewide Funds Also Affects Overall Expenditures

States are spending their statewide funds at about half the rate of local funds, in part because some of these funds are used to provide end-of-year incentive grants to local areas or are held to enable response to mass layoffs or plant closures.

WIA PY2001 Expenditure Rates over 9 Months by Funding Category, as of 3/31/02



17

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Some States and Localities Use Strategies to Mitigate Factors and Better Manage Spending

- Florida and Texas actively monitor expenditures and obligations based on stricter criteria than those under WIA. For example, Florida recaptures and redistributes funds twice a year based on expenditures.
- Florida requires expedited school billing as part of the contract. Vermont pays the tuition up front rather than at the end of training.
- Chicago begins the contract procurement process prior to the receipt of funds so that contracts are in place by the time funds become available.

18

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Concluding Observations

- Labor lacks accurate financial information upon which to base WIA funding decisions. Inconsistencies in the way obligations are reported cause Labor to consider only expenditures when estimating states' available funds.
- When obligations are not considered, commitments made by states and localities for these funds are not included and Labor's estimate of available funds is overstated.
- Even with the data limitations, Labor's data show that states will easily spend their allocation within the 3-years allowed—most of it within the first 2 years.
- To improve the accuracy of financial reporting and enhance the way they manage their funds, states seek more help from Labor—in the form of better definitions, better guidance and technical assistance, and the systematic sharing of effective management strategies.

19

Appendix II: Nine Selected States

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Nine Selected States

State	Program year 2000 WIA allocation, in millions (percentage of nationwide allocation)
California	$630 (20%)
Colorado	22 (1)
Florida	119 (4)
Illinois	117 (4)
New York	305 (10)
Ohio	113 (4)
Texas	246 (8)
Vermont	6 (less than 1)
Washington	70 (2)
Total	**$1,628 (51%)[a]**

[a]Percentages do not add to 51 due to rounding.

20

Appendix III: List of States that Received Letters from Labor

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List of States That Received Letters from Labor

Labor sent the following states letters that reviewed expenditure rates and, if appropriate, suggested areas for corrective action:

- Alaska
- Arizona
- California
- Connecticut
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Maine
- Massachusetts
- Michigan
- Minnesota
- Missouri
- Nebraska
- Nevada
- New Hampshire
- New York[a]
- Ohio[a]
- Oregon
- Puerto Rico[a]
- Rhode Island
- Vermont
- Washington
- Wisconsin

[a]These states received letters because they fell below Labor's spending benchmarks and were required to submit corrective action plans.

21

Related GAO Products

Workforce Investment Act: States and Localities Increasingly Coordinate Services for TANF Clients, but Better Information Needed on Effective Approaches. GAO-02-696. Washington, D.C.: July 3, 2002.

Workforce Investment Act: Coordination of TANF Services Through One-Stops Has Increased Despite Challenges. GAO-02-739T. Washington, D.C.: May 16, 2002.

Workforce Investment Act: Youth Provisions Promote New Service Strategies, but Additional Guidance Would Enhance Program Development. GAO-02-413. Washington, D.C.: Apr. 5, 2002.

Workforce Investment Act: Coordination between TANF Programs and One-Stop Centers Is Increasing, but Challenges Remain. GAO-02-500T. Washington, D.C.: Mar. 12, 2002.

Workforce Investment Act: Better Guidance and Revised Funding Formula Would Enhance Dislocated Worker Program. GAO-02-274. Washington, D.C.: Feb. 11, 2002.

Workforce Investment Act: Improvements Needed in Performance Measures to Provide a More Accurate Picture of WIA's Effectiveness. GAO-02-275. Washington, D.C.: Feb. 1, 2002.

Workforce Investment Act: New Requirements Create Need for More Guidance. GAO-02-94T. Washington, D.C.: Oct. 4, 2001.

Workforce Investment Act: Better Guidance Needed to Address Concerns Over New Requirements. GAO-02-72. Washington, D.C.: Oct. 4, 2001.

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